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## **SUN ART RETAIL GROUP LIMITED**

**高鑫零售有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 06808)**

### **CONNECTED TRANSACTION ACQUISITION OF EQUITY INTERESTS IN HE XIAO MA**

#### **ACQUISITION**

On 8 May 2018, Alibaba Technology and RT-Mart China entered into the Joint Venture Agreement pursuant to which the parties have agreed to establish He Xiao Ma to be owned as to 49% by RT-Mart China and the remaining 51% by Alibaba Technology. At the time when the Joint Venture Agreement was entered into, the transactions contemplated under the Joint Venture Agreement were fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

The Board is pleased to announced that, on 15 January 2021, RT-Mart China (an indirect subsidiary of the Company) entered into the Equity Transfer Agreement with Alibaba Technology (a connected person of the Company), pursuant to which RT-Mart China agreed to purchase and Alibaba Technology agreed to sell, 51% of the equity interests in He Xiao Ma.

#### **LISTING RULES IMPLICATIONS**

Taobao China directly holds approximately 27.33% of the total issued Shares of the Company as at the date of this announcement and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Taobao China is an indirect wholly-owned subsidiary of Alibaba. Alibaba is therefore also a connected person of the Company under the Listing Rules.

Alibaba Technology is an indirectly wholly owned by Alibaba and is therefore a connected subsidiary of the Company. Accordingly, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Equity Transfer Agreement and the transactions contemplated thereunder exceed 0.1% but do not exceed 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## INTRODUCTION

On 8 May 2018, Alibaba Technology and RT-Mart China entered into the Joint Venture Agreement pursuant to which the parties have agreed to establish He Xiao Ma to be owned as to 49% by RT-Mart China and the remaining 51% by Alibaba Technology. At the time when the Joint Venture Agreement was entered into, the transactions contemplated under the Joint Venture Agreement were fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

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## THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are as follows:

**Date** : 15 January 2021 (after trading hours)

**Parties** : (i) RT-Mart China (as the purchaser)  
(ii) Alibaba Technology (as the vendor)

**Assets to be acquired** : 51% equity interest in He Xiao Ma.

For further information relating to He Xiao Ma, please refer to the section headed "Information of the Parties - He Xiao Ma" below.

**Consideration and terms of payment** : The consideration is RMB25,500,000, which shall be payable by RT-Mart China to Alibaba Technology in cash within 30 Business Days from the signing date of the Equity Transfer Agreement.

No adjustment will be made to the consideration pursuant to the Equity Transfer Agreement.

**Basis of the Consideration:** The consideration was determined after arm's length negotiations between the RT-Mart China and Alibaba Technology taking into account, among other things, (i) the appraised value of the total shareholders' equity of He Xiao Ma of approximately RMB51,819,997 as at the Valuation Date as set out in the Valuation Report; (ii) the net assets value of He Xiao Ma as at 31 December 2019 of approximately RMB24,626,268.07 extracted from He Xiao Ma's audited financial statements for the year ended 31 December 2019; (iii) the prospects of the operation of the Company's small-scale supermarkets; and (iv) the reasons for and benefits of the Acquisition as disclosed below.

**Completion** : Completion of the Acquisition is not subject to any conditions precedent.

The parties agree to jointly procure the completion of the procedures for obtaining the approvals from the relevant PRC government departments and the registration with the relevant administration of industry and commerce of the PRC government in order to complete the Acquisition.

Upon completion of the Acquisition, RT-Mart China will hold the entire equity interest in He Xiao Ma and He Xiao Ma will become a wholly owned subsidiary of the Company.

## VALUATION

According to the Valuation Report prepared by Shanghai De'An Certified Public Accountants\* (上海德安會計師事務所有限公司), the appraised value of the total shareholders' equity of He Xiao Ma as at 30 June 2020 was approximately RMB51,819,997. The total consideration of the Transaction was determined with reference to the valuation made by the Valuer.

The fair value under the Valuation Report was determined using the income approach based on the discounted cash flows. Accordingly, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the "**Profit Forecast**").

In compliance with Rules 14.60A and 14.62 of the Listing Rules, the principal assumptions upon which the Profit Forecast was based are set out as follows:

- The purpose of appraisal is to appraise the value of the total shareholders' equity of He Xiao Ma;
- There will be no unforeseen significant changes in external economic environment after the Valuation Date;
- He Xiao Ma will continue to operate as a going concern and He Xiao Ma will continue to operate in the current regulated manner and there will not be any material changes in the foreseeable future;
- The business activities of He Xiao Ma and services provided by it are in line with the national industrial policy, and the various business activities being carried out are legal;
- The effect of fluctuations in foreign exchange market has not been taken into account when apprising the future income of He Xiao Ma;
- Save as expressly provided in the Valuation Report, the appraisal has not taken into account of the impact of the mortgage or guarantee on the equity interest or the assets of He Xiao Ma, nor has taken into account the potential effect of any change in national economic policies or other force majeure events;
- Historical financial data of He Xiao Ma has been taken into account when appraising the future financial data and financial performance of the Company;

- All future sales of He Xiao Ma are domestic sales;
- The revenue of He Xiao Ma in the coming 5 years is estimated having taken into account the current status of the clients, the extension of the geographical reach and potential future growth of clients of He Xiao Ma;
- The Business Income tax rate applicable to He Xiao Ma is 25%. The value-added tax rate of domestic sales are 13%, 9%, 6%, 0% and the value-added tax additional tax rate are 5%, 3%, 2%, 1% depending on merchandise items. The aforesaid tax rates will not be changed in the foreseeable future.
- The period of depreciation for fixed assets is 5 years;
- The turnover days for the receivables are 5 days; the turnover ratio of inventory is 12 times per year and the turnover days for the payables are 40 days;
- Leveraged financing activities have not been taken into account in the appraisal.

The Board has reviewed the principal assumptions upon which the Profit Forecast was based and is of the view that the Profit Forecast was made after due care and enquiry.

KPMG has been engaged by the Company to review the calculation of the discounted cash flow upon which the Valuation Report prepared by the Valuer was based. A letter from the Board and a report from KPMG are included in the appendices to this announcement for the purposes of Rules 14.60A and 14.62 of the Listing Rules. The following are the qualifications of the Valuer and KPMG:

<b>Name</b>	<b>Qualification</b>
Shanghai De'An Certified Public Accountants* (上海德安會計師事務所有限公司)	Professional Valuer
KPMG	Certified Public Accountants

To the best knowledge, information and belief of the Board after having made all reasonable enquiries, each of the Valuer and KPMG is a third party independent of the Group and is not a Connected Person of the Group. As at the date of this announcement, neither the Valuer nor KPMG has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

Each of the Valuer and KPMG has given and has not withdrawn its respective written consent to the publication of this announcement with inclusion of its opinion and advice and all references to its name in the form and context in which it appears in this announcement.

## INFORMATION OF PARTIES

### He Xiao Ma

He Xiao Ma is a company incorporated under the laws of the PRC with limited liability and principally carries on scale business in the food retail sector focusing on fresh products.

### RT-Mart China

RT-Mart China is a company incorporated under the laws of PRC and is principally engaged in the operation of Hypermarkets in the PRC.

### Alibaba Technology

Alibaba Technology is a company incorporated under the laws of PRC and is principally engaged in the provision of various internet services.

Based on the financial statements of He Xiao Ma prepared in accordance with generally accepted accounting principles in the PRC, the financial information of He Xiao Ma for the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 were as follows:

	For the year ended 31 December 2018 (audited) (RMB)	For the year ended 31 December 2019 (audited) (RMB)	For the six months ended 30 June 2020 (unaudited) (RMB)
Revenue	20,176,063.67	110,764,854.88	64,537,062.90
Profit/(Loss) before taxation	(3,812,632.64)	(21,552,674.90)	2,353,826.84
Profit/(Loss) after taxation	(3,812,632.64)	(21,552,674.90)	2,353,826.84

The unaudited net asset value and unaudited total asset value of He Xiao Ma as at 30 June 2020 were approximately RMB26,980,094.64 and RMB48,263,540.24, respectively.

According to the Valuation Report, the appraised value of the total shareholders' equity of He Xiao Ma as at the Valuation Date, being 30 June 2020, was approximately RMB51,819,997, which was determined based on income approach in accordance with the relevant PRC laws and regulations.

## REASONS FOR AND BENEFITS OF THE ACQUISITION

He Xiao Ma was established in June 2018 by the Group and Alibaba Technology. Upon completion of the Acquisition, He Xiao Ma will become a wholly-owned subsidiary of the Company. The Acquisition will adjust and streamline the corporate structure of the Group, enhance the Company's management and operational efficiency, continue to facilitate the operation of its small-scale supermarkets.

The Directors (including the Independent Non-executive Directors) are of the view that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and that entering into of the Equity Transfer Agreement is in the interest of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Taobao China directly holds approximately 27.33% of the total issued Shares of the Company as at the date of this announcement and is therefore a substantial shareholder and a connected person of the Company under the Listing Rules. Taobao China is an indirect wholly-owned subsidiary of Alibaba. Alibaba is therefore also a connected person of the Company under the Listing Rules.

Alibaba Technology is an indirectly wholly owned by Alibaba and is therefore a connected subsidiary of the Company. Accordingly, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Equity Transfer Agreement and the transactions contemplated thereunder exceed 0.1% but do not exceed 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the capitalised terms shall have the meanings as set out below:

<b>“Acquisition”</b>	the proposed acquisition of the 51% equity interest in He Xiao Ma by RT-Mart China from Alibaba Technology pursuant to the terms of the Equity Transfer Agreement
<b>“Alibaba”</b>	Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), a company incorporated in the Cayman Islands and the American depositary shares of which are listed on the New York Stock Exchange, its ordinary shares are listed on the Main Board of the Stock Exchange (Stock Code: 9988)
<b>“Alibaba Group”</b>	Alibaba and its associates
<b>“Alibaba Technology”</b>	阿里巴巴(中國)網絡技術有限公司 (Alibaba (China) Network Technology Co., Ltd.*), a company incorporated under the laws of the PRC and an indirect wholly owned subsidiary of Alibaba
<b>“associate(s)”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Board”</b>	the board of Directors of the Company
<b>“Business Day”</b>	a day on which banks are open for business in the PRC
<b>“Company”</b>	Sun Art Retail Group Limited (高鑫零售有限公司), a company incorporated under the laws of Hong Kong on 13 December 2000 with limited liability, the shares of which are listed on the main board of the Stock Exchange

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 15 January 2021 entered into between RT-Mart China and Alibaba Technology in relation to the Acquisition
“Group”	the Company and its Subsidiaries
“He Xiao Ma”	上海盒小馬網絡科技有限公司 (Shanghai He Xiao Ma Network Technology Co., Ltd.*), a limited company incorporated in the PRC, 51% equity interest of it shall be transferred to RT-Mart pursuant to the Equity Transfer Agreement. Upon completion of the Acquisition, RT-Mart China will hold the entire equity interest in He Xiao Ma and He Xiao Ma will become a wholly owned subsidiary of the Company.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Venture Agreement”	the joint venture agreement entered into between RT-Mart China and Alibaba Technology on 8 May 2018 relating to the establishment of He Xiao Ma,
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China and for the purpose of this announcement, it excludes Taiwan, Hong Kong and Macau Special Administrative Region of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“RT-Mart China”	康成投資(中國)有限公司 (Concord Investment (China) Co., Ltd.*), a limited liability joint venture company incorporated in the PRC and is a subsidiary of the Company
“Share(s)”	ordinary share(s) of the Company in issue
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Store(s)”	the retail store(s) operated by the Group
“Subsidiary”	in relation to any company or corporation, a company or corporation:
	(i) which is controlled, directly or indirectly, by the first mentioned company or corporation;



## APPENDIX I – LETTER FROM THE BOARD

15 January 2021

The Stock Exchange of Hong Kong Limited  
12/F, Two Exchange Square,  
8 Connaught Place  
Central  
Hong Kong

Dear Sirs,

We refer to the announcement of the Company dated 15 January 2021 (the “**Announcement**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the valuation report dated 28 August 2020 (the “**Valuation Report**”) issued by Shanghai De’An Certified Public Accountants\* (上海德安會計師事務所有限公司) (the “**Valuer**”) regarding the appraised value of the total shareholders’ equity of He Xiao Ma as at 30 June 2020, which forms the basis for determining the consideration for the acquisition of 51% equity interest in He Xiao Ma. We note that the methodology applied in deriving the appraised value of the total shareholders’ equity of He Xiao Ma is regarded as a profit forecast (the “**Profit Forecast**”) as defined under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report dated 28 August 2020 from KPMG regarding whether the Profit Forecast, so far as the calculations are concerned, have been properly complied in all material respects in accordance with the bases and assumptions as set out in the Valuation Report.

Based on the above, pursuant to Rule 14.62(3) of the Listing Rules, we hereby confirm that the Profit Forecast under the Valuation Report has been made after due and careful enquiry of the Board.

By Order of the Board  
**Sun Art Retail Group Limited**  
**HUANG Ming-Tuan**  
*Chairman and Chief Executive Officer*

## APPENDIX II – LETTER FROM KPMG

*The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in this announcement.*



### REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF SHANGHAI HE XIAO MA NETWORK TECHNOLOGY CO., LTD.

#### TO THE BOARD OF DIRECTORS OF SUN ART RETAIL GROUP LIMITED

We refer to the discounted future cash flows on which the valuation (“**the Valuation**”) dated 28 August 2020 prepared by Shanghai De’An Certified Public Accountants of Shanghai He Xiao Ma Network Technology Co., Ltd. (“**the Target Company**”) as at 30 June 2020 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

#### Directors’ Responsibilities

The directors of Sun Art Retail Group Limited (the “**Directors**”) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

#### Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Reporting Accountants’ Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

## **Basis of Opinion**

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

## **Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

## **Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

## **KPMG**

Certified Public Accountants  
Hong Kong  
15 January 2021